

**REPORT OF THE AUDIT OF THE
FORMER BELL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2014**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
FORMER BELL COUNTY SHERIFF

For The Year Ended
December 31, 2014

The Auditor of Public Accounts has completed the former Bell County Sheriff's audit for the year ended December 31, 2014. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$131,751 from the prior year, resulting in excess fees of \$668,827 as of December 31, 2014. Receipts increased by \$130,151 from the prior year and disbursements decreased by \$1,600.

Report Comment:

2014-001 The Former Sheriff's Office Had A Lack Of Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits as of December 8, 2014 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$28,798

The former Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Albey Brock, Bell County Judge/Executive
The Honorable Bruce Bennett, Former Bell County Sheriff
The Honorable Mitchell Williams, Bell County Sheriff
Members of the Bell County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former County Sheriff of Bell County, Kentucky, for the year ended December 31, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Albey Brock, Bell County Judge/Executive
The Honorable Bruce Bennett, Former Bell County Sheriff
The Honorable Mitchell Williams, Bell County Sheriff
Members of the Bell County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Sheriff for the year ended December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 04, 2015 on our consideration of the former Bell County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the former Bell County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

The Honorable Albey Brock, Bell County Judge/Executive
The Honorable Bruce Bennett, Former Bell County Sheriff
The Honorable Mitchell Williams, Bell County Sheriff
Members of the Bell County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2014-001 The Former Sheriff's Office Had A Lack Of Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", followed by a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

November 04, 2015

BELL COUNTY
 BRUCE BENNETT, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

State Grants:

Cops In School Grant	\$	60,000
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State Fees For Services:

Finance and Administration Cabinet	\$ 97,929	
Sheriff Security Service	12,149	110,078

Circuit Court Clerk:

Fines and Fees Collected		2,052
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Fiscal Court

88,097

County Clerk - Delinquent Taxes

24,126

Commission On Taxes Collected

340,945

Fees Collected For Services:

Auto Inspections	10,455	
Accident and Police Reports	178	
Serving Papers	37,880	
Carrying Concealed Deadly Weapon Permits	6,520	
Mental Transports	16,368	71,401

Other:

Add-On Fees	53,623	
Telecommunication Tax Distribution	3,726	
Miscellaneous	1,262	58,611

Interest Earned

4,256

Total Receipts

759,566

The accompanying notes are an integral part of this financial statement.

BELL COUNTY
 BRUCE BENNETT, FORMER SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2014
 (Continued)

Disbursements

Operating Disbursements:

Materials and Supplies-

Office Materials and Supplies \$ 246

Other Charges-

Postage 153

Employee Training 2,343 \$ 2,742

Total Disbursements \$ 2,742

Net Receipts 756,824

Less: Statutory Maximum 87,997

Excess Fees Due County for 2014 668,827

Payments To Fiscal Court - Monthly 668,681

Balance Due Fiscal Court at Completion of Audit \$ 146

The accompanying notes are an integral part of this financial statement.

BELL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the Fiscal Court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.192 requires the Sheriff to settle excess fees with the Fiscal Court at the time he files his final settlement with the Fiscal Court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2014

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies

D. Fee Pooling

The Bell County Sheriff is required by Fiscal Court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Treasurer pays most of the operating expenses of the fee official.

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent for the first six months and 34.31 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

BELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 2. Employee Retirement System (Continued)

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Bell County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Bell County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 8, 2014, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$28,798

Note 4. Petty Cash Balance

The Bell County Fiscal Court allowed the former Sheriff to retain \$500 in the fee account each month to pay miscellaneous expenses. At the end of each calendar year, the former Sheriff paid the \$500 petty cash balance over to the Fiscal Court as part of excess fees.

Note 5. Change Fund Balance

The former Bell County Sheriff's office retained \$600 in cash to be used as a change fund for tax and regular office collections. The cash remained in the former Sheriff's office until the last day of the former Sheriff's term in office, at which time the change fund balance of \$600 was redeposited into the former Sheriff's fee account and paid to the Bell County Fiscal Court as excess fees.

Note 6. Drug Enforcement Account – Forfeiture Funds

On January 1, 2014, the former Sheriff had a balance of \$27,667 in the Drug Enforcement Account. These funds had been released to the Sheriff's office by court order and were used for law enforcement activities in accordance with court orders. During the year, the former Sheriff received \$1,272 in funds granted by a court order, and \$125 for restitution on drug cases. The account earned \$483 of interest. The former Sheriff properly expended \$4,396 and transferred \$25,151 to the incoming Sheriff leaving a balance of \$0 as of December 31, 2014.

Note 7. Federal Asset Forfeiture Account – Forfeiture Funds

On January 1, 2014, the former Sheriff had a balance of \$2,585 in the Federal Asset Forfeiture account for funds released to the former Sheriff by federal court order. These funds were used to support community policing activities, training, and law enforcement operations aimed at further drug seizures and forfeitures. The former Sheriff did not have any receipts or disbursements during calendar year 2014, and properly transferred \$2,585 to the incoming Sheriff leaving a balance of \$0 of forfeited funds in the account as of December 31, 2014.

BELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 8. K-9 Account – Donated Funds

On January 1, 2014, the former Sheriff had \$14,812 in a K-9 Account for monies received from various individuals and civic groups to support the purchase and/or upkeep of a K-9 unit. The former Sheriff did not receive any additional monies into the account and properly transferred \$14,812 to the incoming Sheriff leaving a balance of \$0 as of December 31, 2014.

Note 9. Discretionary Account

On January 1, 2014, the former Sheriff had \$8,273 in an account for monies received as donations to be used to further the public purposes of the Sheriff's office. The former Sheriff did not receive any additional monies into the account and properly transferred \$8,273 to the incoming Sheriff leaving a balance of \$0 in the account as of December 31, 2014.

Note 10. Cops In School Grant

During calendar year 2014, the former Sheriff received \$60,000 in state grant monies for reimbursement of one deputy's salary to work as a youth resource officer in the county school system. The grant was applied for by the Bell County Board of Education and passed through to the former Bell County Sheriff.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Albey Brock, Bell County Judge/Executive
The Honorable Bruce Bennett, Former Bell County Sheriff
The Honorable Mitchell Williams, Bell County Sheriff
Members of the Bell County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former Bell County Sheriff for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated November 04, 2015. The former Bell County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Bell County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Bell County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Bell County Sheriff's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, which is described in the accompanying comment and recommendation as item 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Bell County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'Mike Harmon', followed by a horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

November 04, 2015

COMMENT AND RECOMMENDATION

BELL COUNTY
BRUCE BENNETT, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2014

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2014-001 The Former Sheriff's Office Had A Lack Of Adequate Segregation Of Duties

The former Sheriff's office had a lack of adequate segregation of duties because deputy clerks may collect and issue receipts, prepare the daily checkout sheet, and prepare the daily deposit. The bookkeeper could also prepare the checkout sheet, post to the receipt ledger, prepare and sign disbursements, and prepare the monthly bank reconciliations.

The lack of adequate segregation of duties within the former Sheriff's office was the result of a limited number of staff which prevented the former Sheriff from segregating accounting duties to different individuals within the Sheriff's office. The segregation of duties over various accounting functions such as preparing deposits, recording receipts and disbursements, and preparing bank reconciliations, or the implementation of compensating controls is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. A lack of segregation of duties without adequate compensating controls in place could result in the undetected misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government.

The former Sheriff could have separated duties of collecting payments and issuing receipts, preparing daily checkout sheets, preparing daily deposits, and preparing reconciliations. If these duties could not have been segregated due to a limited staff or budget, then strong oversight could have been provided over the employee responsible for these duties. The former Sheriff or employee providing the oversight could have documented this oversight.

Former Sheriff's Response: No response.

